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DEPARTMENT FOR AF/C AND EEB
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TAGS: CM ECON EFIN
SUBJECT: CAMEROON SEEKS EMERGENCY IMF SUPPORT; DONORS
FRUSTRATED WITH GOVERNANCE

REF: A. A) YAOUNDE 357
¶B. B) YAOUNDE 433
¶C. C) YAOUNDE 216

Classified By: Political/Economic Chief Scott Ticknor for reasons 1.4 (d) and (e)

¶1. (C) Summary: In a June 4 meeting of donors hosted by Ambassador, IMF Res Rep detailed Cameroon's request for about $140 million in Exogenous Shock Facility (ESF) funds to compensate for budget shortfalls due to low oil prices and the global economic crisis. While IMF Res Rep was confident the Board would approve the ESF, other Chiefs of Mission voiced serious concerns about poor governance in forestry, finance, and health. End summary.

An IMF ESF

¶2. (C) In a June 4 meeting of the "8 plus 6," an informal group of like-minded Ambassadors and the heads of the World Bank, IMF, UN and African Development Bank, IMF Res Rep Malangu Kabedi-Mbuyi described IMF discussions with the Government of Cameroon (GRC) for an Exogenous Shock Facility (ESF). According to Kabedi, during the March/April IMF discussions with the IMF, Prime Minister Ephraim Inoni had expressed an interest in a "high access" ESF, which implies a large sum of money with conditions attached. Finance Minister Essemi Menye, who at the time rejected IMF assistance, subsequently approached the IMF for an alternative "rapid access" ESF, which is quicker but involves less money with fewer conditions. In response to Menye's request and a recently received government letter of intent, the IMF plans in early July to take to the Board a request for a 90 million Special Drawing Right (SDR) - roughly $140 million - ESF proposal for Cameroon. The ESF will be designed to help cover the expected 200 billion FCFA (about $425 million at the current exchange rate, but was) government deficit in 2009 resulting from a drop in oil prices, lower revenues from cotton and timber, and other exogenous shocks to the economy.

¶3. (C) The Fund initially thought Cameroon's roughly 500 billion FCFA ($1 billion) in deposits in the Central Bank were sufficient to handle these shocks without an ESF. However, they learned during the April IMF visit that 40% of these deposits are earmarked and not available to cover short term revenue shortfalls. These earmarks, totaling about 220 billion FCFA (about $500 million) include roughly 45 billion FCFA for a road fund with the European Union, 80 billion FCFA for an agreement to safeguard repayments of commercial debt, a small sum to cover external debt payments, 6 billion FCFA for a forestry fund, 6 billion FCFA for an agriculture fund,

and 110 billion FCFA committed under French debt relief agreements, according to Kabedi. In the absence of an ESF, the GRC is nervous about depleting nearly two thirds of its available deposits, which would leave it with little money to handle crises next year as the country heads toward scheduled presidential elections in 2011, Kabedi said.

¶4. (SBU) Note: The IMF's Chief Economist in Cameroon later clarified to Pol/Econ Chief that, while Cameroon has about $4 billion in foreign exchange reserves (separate from government deposits in the Central Bank), it could be costly for the government to tap these reserves from the Central Bank. He also noted that Cameroon is expected for the first time to run a negative trade balance and has seen its terms of trade worsen by 30 percent, which could put pressure on the forex reserves. He thought the government preferred not to touch these reserves. When asked about the impact of the recent rebound in international oil prices, he said this would lessen the revenue gap but he was unsure by how much and cautioned that oil prices could fluctuate. End note.

¶5. (C) Kabedi thought it likely that the Board would approve the ESF and hoped it would serve as a catalyst for the GRC to improve the business environment and lay the groundwork for another Poverty Reduction and Growth Facility (PRGF), despite the Finance Minster's past resistance to the idea. She noted that the GRC had written to other multilateral donors for additional emergency funding and thought the IMF would be unlikely to provide emergency aid beyond the ESF.

¶6. (SBU) The UK High Commissioner hoped the GRC would use an ESF and economic hard times to improve the business climate and boost reforms. He was frustrated with the GRC's budget capacity and transparency problems. The European Union rep said the EU would not provide budget support since Cameroon is an oil-producing country.

Governance Challenges: Forestry

¶7. (C) The Canadian High Commissioner detailed frustrating discussions with the Ministry of Forests and Wildlife which revealed major governance problems in the sector. He noted that, despite a donor-supported program to provide oversight to forestry concessions, five out of 17 illegal forestry plots had restarted production and the rest had not responded to government inquiries. No tax had been collected in the sector since 2005 and oversight efforts "have been worth nothing," lamented the High Commissioner. The Italian Ambassador added that Minister of Forests and Wildlife "knows nothing" about what goes on his corrupt ministry, while the UK High Commissioner said the UK has frozen all funding to the sector, calling senior ministry officials "bandits."

Governance Challenges: HIPC

¶8. (C) Canadian High Commissioner and German DCM explained that their governments used to participate in a donor oversight committee to review spending of funds generated from debt relief under the Highly Indebted Poor Country Initiative (HIPC) in 2006. In March, donors received a letter from the Minister of Economy abolishing this committee. The committee has responded with a request to keep the oversight function; the German and UK reps agreed HIPC funds have produced virtually nothing to date. IMF Res Rep said that as of April the government had over 150 billion FCFA in the HIPC account and that very little of the HIPC money had been spent (last year no funds were disbursed), opining that civil servants preferred not to spend the money because the funds had too many controls. Kabedi shared that the government believed it had every right to manage HIPC funds without an oversight committee but she believed that without the committee "we'll never know" how the money gets spent.

Governance Challenges : ARV

¶9. (C) Ambassador noted that Cameroon is heading toward a crisis because its funding will run out in the Fall for thousands of people on HIV/AIDS anti-retroviral drugs (ARVs). Cameroon hopes donors will come up with the money (estimated at $1 million/month), either through the Global Fund or bilaterally. As reported ref C, donors have so far been disinclined to step in with money, arguing that the GRC has the funds but has just mismanaged them in the past (the previous Health Minister is currently in jail on charges of embezzling health funds.) The Italian and Canadian High Commissioners voiced initial concerns about bailing out the government on ARVs, although they hoped to get more information about the problem. They noted the challenge of doing economic and social planning when publication of the revised census has been stuck in the presidency for over a year.

Comment

¶10. (C) Kabedi stated that the Spring IMF team was very impressed with the knowledge and strategic planning of sectoral ministers, but she lamented that their main problem was a lack of clout and presidential backing. As we have noted in ref B and C, Cameroon performs poorly in transparency and implementation of its budget. It spends only 75% of its annual investment budget. The World Bank, EU and other major donors in Cameroon routinely vent frustration at the difficulty in getting their projects moving here. The governance concerns voiced about the forestry sector and with HIPC funds ring true to us and mirror similar concerns we hear about infrastructure, agriculture and other key sectors. A "rapid access" ESF would help with a real revenue pinch but would not force the GRC to confront fundamental governance challenges. Rising oil prices will also likely lessen the immediate need for budget assistance and importance of an ESF, although it is difficult at this time to say by how much. For now, the eight plus six donors seem inclined to use whatever influence they have to keep pushing

for improved management of the budget and government resources. We will keep pushing as well and hope that, if approved, an IMF ESF can help provide new leverage for reforms.
GARVEY